SOCIAL INVESTMENT
TEN YEARS ON

FINAL REPORT OF THE
SOCIAL INVESTMENT TASK FORCE
APRIL 2010

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FOREWORD

It is now some ten years since the Social Investment Task Force (SITF) first met. Its specific remit was "to set out how entrepreneurial practices could be applied to obtain higher social and financial returns from social investment, to harness new talents and skills, to address economic regeneration and to unleash new sources of private and institutional investment". In addition, the Task Force was asked to explore innovative roles that the voluntary sector, business and government could play as partners.

The recent recession has shown yet again that the most disadvantaged in society are hit hardest by economic downturns. There is a critical need for sustainable investment in poorer communities if free market societies are to maintain cohesion. It is the Task Force's view that this can best be achieved through social entrepreneurship and investment effected by a powerful social sector that acts alongside government in tackling social issues.

Over the last decade, there has been a significant increase in the flow of investment to disadvantaged communities and there are some encouraging developments in social investment, together with significantly greater interest from mainstream financial institutions as well as trusts and foundations. This has accompanied a shift in mindset and culture among voluntary sector organisations, which have become both more entrepreneurial and more focused on the sustainable achievement of their targeted social results.

In its report, *Enterprising Communities: Wealth Beyond Welfare* (October 2000), the SITF produced five recommendations for the Chancellor of the Exchequer that have since been implemented in varying degrees. The implementation of these recommendations by Government has led to:

- the introduction of Community Investment Tax Relief (CITR);
- matching finance to help set up the first community development venture capital fund;
- additional disclosure by banks of their lending activities;
- legislative and regulatory changes to provide greater latitude and encouragement for charitable trusts and foundations to invest in community development finance; and
- the creation of the Community Development Finance Association (**cdfa**) to provide support for community development finance institutions (CDFIs).

The Task Force has continued to meet periodically, monitoring progress and considering further ideas to take the social investment agenda forward. This final report looks at the changes that have occurred over the past decade in the market for social investment in the UK. It then reviews progress achieved to date on each of the Task Force's recommendations. Finally, this report focuses on three specific initiatives that will help define the future of social investment in the UK:

- Establishing the infrastructure necessary to create a dynamic market in social investment through initiatives such as the Social Investment Bank;
- Creating new tools to deliver social change through financial instruments such as the Social Impact Bond; and
- Engaging the financial sector to invest in disadvantaged areas through a Community Reinvestment Act.

The publication of this report marks the completion of the Task Force's mandate. The way ahead is clear and it is now time to set up a dedicated organisation, a Social Investment Initiative, to drive continued development of a powerful, sustainable and effective social investment sector in the UK.

I take this opportunity to offer my warmest personal thanks to my fellow Task Force members for their insight, effort and commitment over a decade. It has been a privilege to work with them in developing new approaches to improve the difficult lives of those whom rising national prosperity has not helped.

Ronald Cohen

Chairman

Original Task Force Members:

Sir Ronald Cohen (Chairman) – Chairman of Bridges Ventures, Chairman of The Portland Trust and Director of Social Finance

David Carrington – Independent Consultant on the charities sector and Supervisory Board Member of Triodos Bank

Ian Hargreaves (initial phase) – former Editor of *New Statesman* and Director of Cardiff University Centre for Journalism Studies

Philip Hulme – co-founder of Computacenter and founder of the Hadley Trust

Geraldine Peacock, CBE – former Chair of the Charities Commission

Joan Shapiro – Chair of SeerAnalytics, LLC and former Executive Vice President of ShoreBank, Chicago

Tom Singh, OBE (initial phase) – founder of New Look

Subsequent appointments:

Dawn Austwick, OBE – Chief Executive of the Esmée Fairbairn Foundation

Michele Giddens – Executive Director of Bridges Ventures

Andrew Gowers – former Editor of *Financial Times*

Ben Kernighan – Deputy Chief Executive of the National Council for Voluntary Organisations

Ed Mayo – Secretary General of Co-operatives UK

David Orr – Chief Executive of the National Housing Federation

Danny Truell – Chief Investment Officer of the Wellcome Trust

Stewart Wallis, OBE – Executive Director of the New Economics Foundation

T I

2000

Social Investment Taskforce (SITF) Formed in April by HM Treasury

SITF publishes its first report in October

Taskforce recommendations accepted by Chancellor

National Council for Voluntary Organisations (NCVO) launches Sustainable Funding project

2001

UnLtd launched with £100m from the Millennium Fund

Community Investment Tax Relief (CITR) and matching finance for first Community Development Venture Fund announced

Charity Commission issues guidance on social investment

CAF Venturesome set up

2002

Community Development Finance Association (cdfa) established

Charity Bank launched

Bridges CDV Fund I (£40 million) launched with government matched funding and with support of Apax, 3i and Tom Singh

Adventure Capital Fund launched: initially £2 million one year initiative supporting community enterprises

CITR enacted

Impetus Trust founded

2003

First 11 Community Development Finance Institutions (CDFIs) accredited under CITR

Charity Commission publishes "The Magic Roundabout" guide to programme-related investment

SITF publishes first progress report

Phoenix Fund run by the Department of Trade and Industry (DTI) awards over £42 million to 63 CDFIs

2004

Community Interest Companies (CICs) introduced

Financial Inclusion Taskforce established

Investing for Good advisory services set-up

Government £120 million Financial Inclusion Fund announced (including £36m Growth Fund to support lending in socially excluded areas)

Futurebuilders (England) fund for Third Sector launched with £125m (funded by government)

First annual Skoll World Forum on Social Entrepreneurship held in Oxford

20

SITF publishes second progress report

Big Issue Invest launched

Responsibility for CDFIs transferred to Regional Development Agencies

M E L I N E

Bridges Ventures Social Entrepreneurs Fund (£8.5m) launched with support from NESTA and matched government funding

Triodos Opportunities Fund launched (£3m) (now the Triodos Social Enterprise Fund)

Esmée Fairbairn Foundation announces £15 million Finance Fund to provide non-grant funding for social investment projects (originally piloted with CAF Venturesome)

Catalyst launches Fund I: "Investing for Financial Returns with a Social Impact" (with £5m cornerstone commitment from Barclays Bank)

Dormant Bank and Building Society Accounts Act supports a "Social Investment Wholesaler"

2006

Government sets up the Office of the Third Sector (OTS)

Breakthrough social investment programme established by CAN with the support of Permira

05 | 2006 | 2007 | 2008 | 2009 | 2010

Bridges CDV Fund II successfully launched without any government support (£75m)

Commission on Unclaimed Assets recommends establishment of a Social Investment Bank funded by capital in UK dormant bank accounts

Department of Health announces £100 million Social Enterprise Fund

Charity Bank establishes an operation in the North of England

Social Finance Ltd created as a nascent social investment bank

£70 million Communitybuilders fund launched to provide capacity building for community anchor organisations

By March 2009, CITR has raised £58m, CDFIs have invested a total of £472m

OTS/NESTA launch a "Social Enterprise Access to Investment Programme" to support service providers for sector "investment readiness"

Big Issue Invest Social Enterprise Fund capital raising is announced

Global Impact Investing Network is launched by the Rockefeller Foundation

Pre-Budget Report announces funding for a Social Investment Wholesale Bank

Social Finance proposes Social Impact Bond to fund preventative action addressing social issues

OTS consultation on design of a Social Investment Wholesale Bank is completed

First closing of Bridges Ventures Property Fund takes place with £26m

Launch of first Social Impact Bond by Social Finance and the Ministry of Justice to reduce re-offending by prison leavers

DEVELOPMENT OF THE SOCIAL INVESTMENT MARKET

The ten years since the original Task Force report have seen the emergence of a social investment market in the UK.

Socially Responsible Investment (SRI) funds had already emerged at the time of the first report. They generally employed negative screening to avoid investing in harmful sectors and used shareholder activism to encourage responsible behaviour by companies. These funds have seen robust growth over the last decade. The latest figures from UKSIF (the Sustainable Investment and Finance Association)[1] indicate that roughly £764 billion was invested in these funds in the UK.

Microfinance in emerging markets had also moved beyond grant-funding into offering opportunities for social investors. That likewise has grown significantly over the past few years, with major investment banks now involved in raising and structuring finance for microfinance organisations. The gross loan portfolio of microfinance organisations[2] was over $39 billion at year end 2008. This represents 76 million borrowers (with an average loan balance of less than $600). There are now over 100 investment funds investing in this market with over $6 billion in assets.[3]

In parallel, social investment has begun to spread more widely into investments that are diverse in terms of social mission, structure and risk-reward profile. Innovative new funds have sprung up from venture philanthropy[4] to mission driven funds seeking market levels of financial return. In addition, social investment is responding to climate change (however, given the breadth of activity in the climate change area generally, we have not attempted to cover environmental initiatives in this report).

The table opposite illustrates some (but clearly not all) of the social investment entities that have emerged and developed in the UK since 2000, to supplement the activities of existing organisations such as The Prince's Trust, Triodos Bank and Unity Trust Bank. The forms of financial investment employed by these organisations range from grants, through patient capital, to loans, to quasi-equity and full-equity investments.

Intermediaries and associations that promote social investment and social entrepreneurship (eg. **cdfa**, the Social Enterprise Network and NESTA's Social Finance initiative) have also been formed and the Social Stock Exchange is developing the idea of establishing a trading platform for social investments. Another new organisation, New Philanthropy Capital, provides independent research tools and advice to funders of charities to help them achieve greater impact.

A wide range of new investors has been attracted to social investment since 2000. Examples include: private

1 European SRI Study 2008

2 As reported to the Microfinance Information Exchange Inc

3 International Association of Microfinance Investors – referenced in Investing for Impact report by Bridges Ventures and the Parthenon Group, 2010.

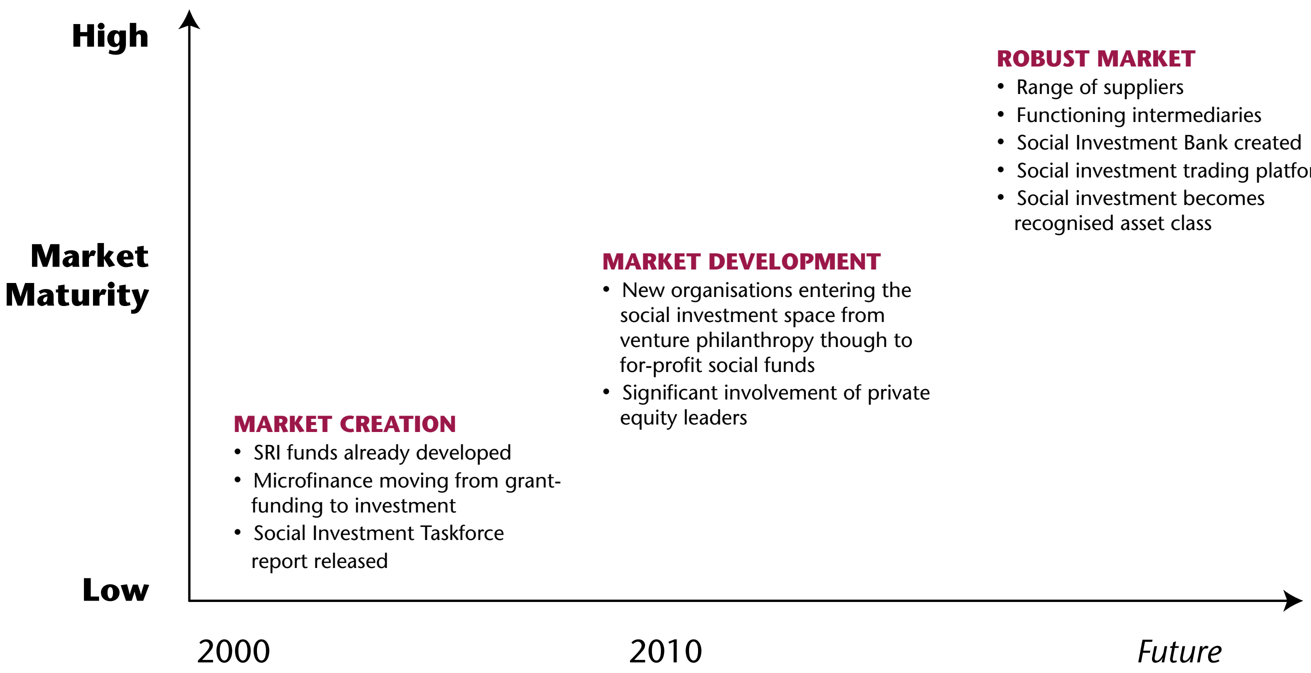
4 An investment approach to grant-making which involves funding the long-term development of charities and social enterprises and providing expertise to help them succeed.

Table 1: Examples of organisations established since 2000

UnLtd	Established with funding from the Millennium Fund to provide grant support to social entrepreneurs.	Grants
Impetus	Venture philanthropic organisation – combines strategic funding and expertise for charities and social enterprises.	Grants
Private Equity Foundation	Provides funding and pro bono private equity advice to portfolio of youth-focused charities.	Grants
Breakthrough	Joint venture between CAN and Permira. Provides funding and management support to help established social enterprises grow.	Grants
CAF Venturesome	Capital for charities and social enterprises.	Patient capital
Futurebuilders, Communitybuilders and Social Enterprise Investment Fund (Social Investment Business)	Government funded[5] providers of loans, grants and professional support to third sector organisations delivering public services.	Loans
Charity Bank	Bank providing affordable loan finance and advice to enable third sector organisations to develop.	Loans
Investing for Good	Provider of impact investment advice to investors.	Investment advice
Social Finance	Social investment banking firm enabling social organisations to access capital markets effectively.	Structuring advice/ intermediary
ClearlySo	Adviser and on-line hub for social enterprise and investment.	Hub for sector
Bridges Social Entrepreneurs Fund	Fund for investment in scalable social enterprises delivering high social impact and operating sustainable business models.	Risk capital
Big Issue Invest	Provider of specialist finance to social enterprises and trading arms of charities.	Risk capital
Triodos Social Enterprise Fund	Fund to invest in high-impact commercially sustainable social enterprises.	Risk capital
WHEB Ventures	Venture Fund investing in high-growth clean tech as well as social and health care companies.	Venture capital
Bridges Ventures	Investment funds providing commercial expertise to deliver both financial returns and social benefits.	Venture capital/private equity and property investment

5 Funding provided by: Office of the Third Sector; Department of Health; and Department of Communities and Local Government.

Figure 1: The UK Social Investment Sector: an emerging market*



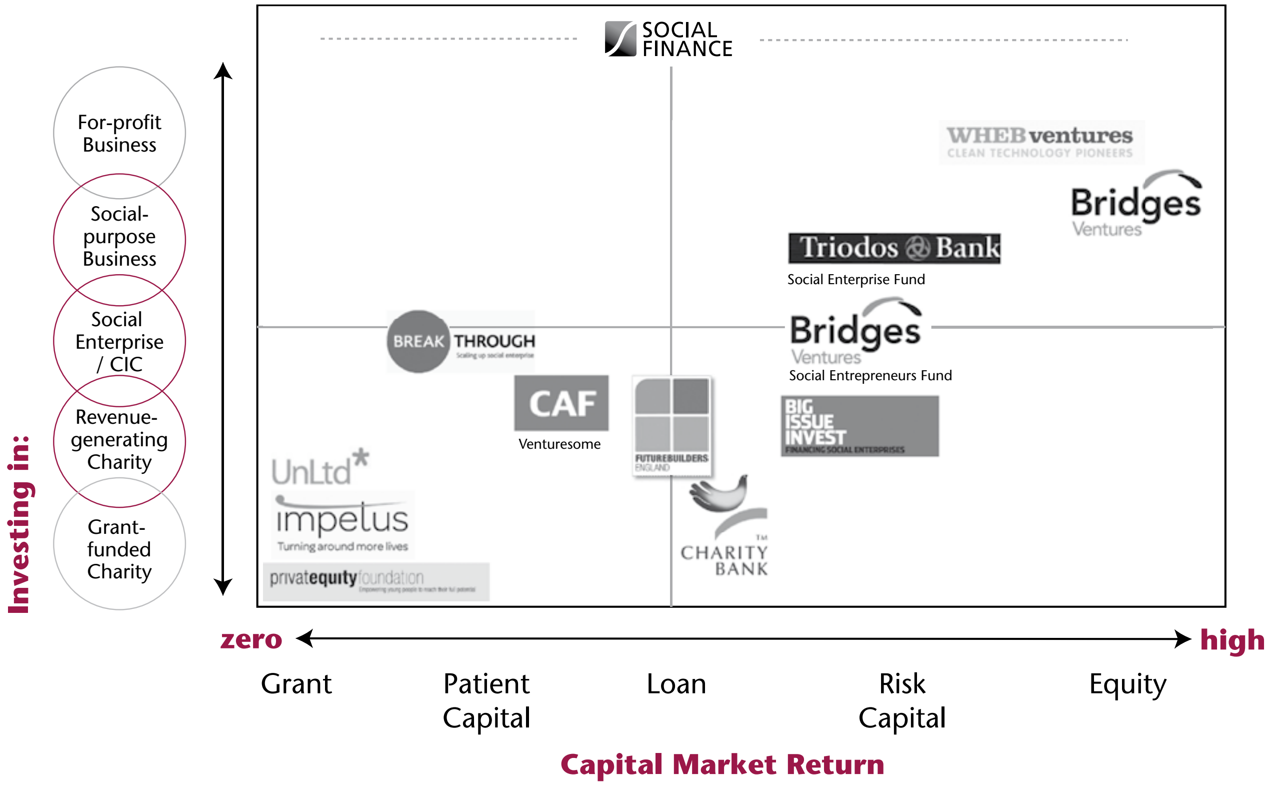
equity funds backing venture philanthropy initiatives such as Impetus and the Breakthrough programme of CAN and Permira; wealthy individuals and institutional investors investing directly in social enterprises and through social investment funds such as the Bridges Ventures funds; and foundations such as Esmée Fairbairn, which has created a social investment fund, and the Tudor Trust, which has committed to invest endowment assets in an increasingly mission-related manner in addition to traditional grant-giving activity.

As a result of these and other initiatives social entrepreneurship and investment have gained credibility and authority with policy-makers across the political spectrum. In May 2006, the Office of the Third Sector was established in recognition of the increasingly important role that the social sector plays in society. It supports the development of a thriving social sector, including voluntary and community groups, social enterprises, charities, cooperatives and mutuals. In the current run-up to the 2010 General Election, there have been a number of policy statements by the main political parties demonstrating a remarkable degree of consensus that the social investment approach is needed to complement grant making and public sector spending if we are to address social issues effectively.

Cross-party support for this agenda has allowed passage through Parliament of the Dormant Bank and Building Society Accounts Act 2008 which, following the advice of the Commission on Unclaimed Assets, will make funding available for the establishment of a Social Investment Bank (see "Social Investment Bank" Section 3.1 of this report).

These developments in the UK are part of an international process of innovation in dealing with social issues. The Rockefeller Foundation launched the Global Impact

Figure 2: Examples of new initiatives across the social investment spectrum*



Investing Network (GIIN) in September 2009, to increase the effectiveness across the world of investment that aims to solve social or environmental challenges while generating financial returns.

Exciting though these developments are, this nascent market still faces several challenges:

- most social investment funds are small and lack a developed track record of performance;
- the market is still poorly defined and there is confusion over terminology;
- there are no accepted standards for measuring social impact against performance benchmarks; and
- although some of the required market infrastructure is emerging, the market lacks the clarity of structure and diversity of organisations that characterise mainstream financial markets, including advisory/corporate finance functions, specialised investment banking and effective secondary markets.

Nevertheless, the social investment market looks set for exciting growth over the next decade, and the SITF believes that social investment will, in time, become an established asset class. It is important that it does. Exacerbated by the recession, huge social challenges threaten the cohesion of our society and they cannot be addressed by government or the private sector alone. A powerful and effective social sector is not just desirable, it is a necessity.

* Figures 1 and 2 adapted from a framework developed by CAF Venturesome, with thanks.

PROGRESS ON SITF ORIGINAL RECOMMENDATIONS

1

ORIGINAL RECOMMENDATION ONE
A COMMUNITY INVESTMENT TAX CREDIT

"Introduction of a Community Investment Tax Relief (CITR) to encourage private investment in under-invested communities, via Community Development Finance Institutions (CDFIs) which can invest in both not-for-profit and profit-seeking enterprises."

Following the recommendation of the SITF, officials from HM Revenue and Customs, the Small Business Service and HM Treasury undertook the detailed design of CITR which became fully operational in March 2003. CITR provides 5% tax offset each year over a five-year period (25% over the term) to investors providing funds to accredited CDFIs that then finance qualifying enterprises and community projects in underinvested communities. To achieve accreditation, CDFIs must meet certain criteria regarding their geographic area of operation and the financial products they offer investors.

The number of CDFIs accredited for CITR has grown from eleven on its launch to more than twenty today. CITR has attracted £58 million to March 2009 (the latest point for which data is available) against the £200 million target set by the SITF and the Government. The main reason for the shortfall is the restrictive nature of the criteria imposed by the Government on use of the facility. Through the **cdfa**, the Government has worked with the sector to address some of these issues, and some helpful amendments have been made to the scheme. However, unhelpful constraints remain. A particular constraint embedded in the legislation is the requirement to deploy a certain proportion of the funds raised from the date of CDFI accreditation rather than from the date funds are raised, which could be much later.

SITF believes that government should simplify the operational design of the scheme so that CITR is capable of attracting a larger number of potential investors.

The Task Force recommends that the following actions be taken by government:

- since the scheme's exemption from EU State Aid Rules runs out in 2012, request an extension to the exemption from the EU Commission and allocate an additional £300 million;
- improve flexibility of the scheme's operation (including raising the cap on the amount that can be lent, reviewing timing for required drawings and recognising committed amounts that have not yet been on-lent);
- provide further support to CDFIs to help them become more investment-ready, through initiatives such as the development of a performance framework (including indicators and benchmarks); and
- provide more active communication and promotional support aimed at a broad range of potential investors, including high-net-worth individuals, using trade journals, broadcast media and on-line information services.

2

ORIGINAL RECOMMENDATION TWO
COMMUNITY DEVELOPMENT VENTURE FUNDS

"The Social Investment Task Force recommends that the successful principles of venture capital, namely long term equity investment, business support to the entrepreneur and rapid growth of the company backed, should be applied to community investment through the creation of Community Development Venture Funds (CDV Funds)."

The ten years since the SITF first reported have seen the emergence of a number of new forms of social venture capital.

In direct response to the Task Force's recommendation, the Government provided £20 million of matching investment, half in the form of a loan at Treasury Bill rates and half as an investment in the fund, to create the first CDV Fund in the UK, Bridges Ventures.

Founded in 2002, Bridges Ventures is a mission-driven fund management company entirely owned by its executive directors and by the Bridges Charitable Trust. It benefits from the support, expertise and connections of three private equity companies: Apax Partners and 3i, which were involved in its creation, and Doughty Hanson.

Bridges Ventures raised £20 million from venture capitalists, entrepreneurs, banks and local authority pension funds to match an equal amount of government funding for its first fund of £40 million. Bridges Ventures focuses on investment in ambitious businesses in those areas comprising the most deprived 25% of England, defined according to the Government's Index of Multiple Deprivation.

Based on a track record of attractive financial returns and social impact, Bridges Ventures raised a second venture fund in 2007 with an expanded mission that includes sustainability. This £75 million fund was raised entirely from the private sector. Bridges Ventures has subsequently launched another two funds: in 2008 it launched the Social Entrepreneurs Fund to provide equity capital for social entrepreneurs aiming to develop scalable social enterprises; and in 2009 it launched a Sustainable Property Fund to invest in buildings located in the most deprived 25% of the country or that demonstrate environmental effectiveness.

To date, the initial matching investment of £20 million by the Government has led to over £120 million of private-sector investment in Bridges Ventures funds.

Government also provided funding for regional CDV Funds, such as the Advantage Early Growth Fund, through the Phoenix Fund run by the Department of Trade and Industry. Since the Phoenix Fund has closed down, its activities have devolved to the regions, and most government funding is now focused on regionally based SMEs rather than mission-driven investment organisations.

Various models of social venture-capital have emerged over the past decade. These range from venture-capital companies focusing on environmental issues, such as WHEB Ventures, to funds targeting social enterprises, such as Big Issue's Big Invest, Bridges Social Entrepreneurs Fund, the Triodos Social Enterprise Fund and CAF Venturesome.

Government policy in this area has been led by the Office of the Third Sector, which has sought to support the development of both social enterprises and the social finance sector through various initiatives, including £10 million of matching investment for funds providing equity capital to social enterprises.

Encouragingly, the mainstream investment community is showing serious interest in responsible investment, as evidenced by the 196 institutional investors and 360 investment managers who have signed up to the United Nations Principles of Responsible Investment (as of February 2010).

The emergence of mission-driven investment managers, dedicated to social or environmental goals, is a welcome addition to the UK's financial sector. They generate new approaches to social entrepreneurship that will prove crucial to meeting important social and environmental needs.

The next decade will offer a significant opportunity to develop a vibrant social investment sector in the UK and elsewhere through:

- establishing a social investment bank to enable social purpose organisations to access the capital markets effectively;
- providing matched funding for a wider range of social investment funds;
- incentivising investment in social enterprise through the CITR;
- reducing barriers in the public procurement process for social enterprises to provide services to government; and
- establishing a definition of a social enterprise.

3

ORIGINAL RECOMMENDATION THREE
DISCLOSURE BY BANKS

"More detailed information about the lending pattern of individual banks, as is available in the US, makes it possible to compare good and bad practice and encourage a cumulative 'improvement in performance'. If voluntary disclosure is not made quickly, the Social Investment Task Force believes that Government should require disclosure, in the manner of the 1977 US Community Reinvestment Act."

This SITF Recommendation outlined an "accountability framework" for banks' activities in under-invested communities. The idea was to encourage action by banks and other financial institutions to increase the flow of capital to areas of deprivation.

Since the call by the Task Force for voluntary disclosure of lending, some banks have improved their transparency, but the sector as a whole still does not systematically disclose lending. It is thus impossible to undertake meaningful analysis and comparison.

The need for disclosure should not be restricted to bank loans to small businesses. It should also encompass the broader markets of personal and business financial services and should include non-bank institutions in an appropriate way.

Disclosure represents an opportunity for banks to engage constructively with communities. US fair lending laws, including the Home Mortgage Disclosure Act (1975) and the Community Reinvestment Act (1977) (CRA), have played a constructive role in this important effort. US financial institutions with over $1 billion in assets are required to report data on small business lending and are regularly examined to assess whether they are adequately meeting the credit needs of communities that suffer from financial exclusion.

Since relying on voluntary disclosure has not proved successful over the past decade in the UK, it is time for legislation to ensure that the pattern of lending and other investment by banks in under-invested communities is disclosed systematically, by borough, ward, type of loan and borrower. The final form of any UK Community Reinvestment Act will benefit from thirty years of experience in the US as well as from research covering the past several years.

(See "A UK Community Reinvestment Act" in Section 3.3 of this report.)

4

ORIGINAL RECOMMENDATION FOUR
CHARITIES AND COMMUNITY DEVELOPMENT FINANCE

"Greater latitude and encouragement for charitable trusts and foundations to invest in community development initiatives."

At the time the Task Force published its original report, charitable trusts and foundations in the UK used grants as their only method of supporting community and voluntary sector organisations. There were almost no examples of charitable funds helping organisations build their capital and operational base, establish and support social enterprises or help people out of poverty by making social investments in the form of loans or equity. The adoption of a broader 'menu' for the use of charitable funds represented a substantial challenge to existing norms.

The first SITF report demonstrated that social investment – and, in particular, support for community development finance – provides significant opportunities for charitable trusts and foundations (and charities generally) to advance their charitable missions and to address poverty with greater impact. Three specific possibilities were outlined in the report:

- investment in CDFIs and other specialist community and social enterprise funders;
- revenue funding and loan guarantees for CDFIs to enable them to build their own organisational capacity and to meet running costs until they achieve sustainability; and
- investment in CDV Funds, now increasingly known as social venture funds.

The Task Force found that many charity trustees and their advisers believed that the Charity Commission would not allow charitable funds and assets to be used to generate a combination of financial and social returns. The Commission was very supportive of the work of the Task Force and, in direct response to the publication of the SITF report, issued new guidance (published in May 2001 – subsequently revised and expanded in November 2002[6]) stating clearly that, unless prohibited by its governing document, any charity that can give grants can make social investments if to do so offers a good means of advancing the charity's objectives.

The Charity Commission has continued to be supportive of social investment and, in 2009, initiated a review of its main guidance on the basic principles of the investment powers of charity trustees.

The Task Force was also keen to encourage the publication of practical guidance and exemplary practice to assist charities considering social investments. There has been a series of such publications including:

- ***The Magic Roundabout:*** *How charities can make their money go further; an introductory guide to Programme Related Investment* (May 2003).[7]
- ***Foundations and Social Investment*** *– making money work harder in order to achieve more* (October 2005).[8]
- ***Mission Possible*** *– emerging opportunities for mission connected investment* (May 2008).[9]
- ***Financing Civil Society:*** *A Practitioner's Guide to the Social Investment Market* (September 2008) and ***Access to Capital:*** *A briefing paper* (September 2009).[10]

6 http://www.charitycommission.gov.uk/charity_requirements_guidance/default.aspx

7 http://www.sayervincent.co.uk/Asp/uploadedFiles/File/Magic%20Roundabout%202004%20edition.pdf

8 http://www.esmeefairbairn.org.uk/docs/EFF_foundations_report.pdf

9 http://www.neweconomics.org/publications/mission-possible

10 http://www.cafonline.org/

Though many advocates of social investment have been disappointed that the number of trusts and foundations that have added social investment to their activities has remained small, engagement has been steadily increasing over the decade. Some, notably the Esmée Fairbairn Foundation, have invested in a range of new funds and specialist intermediaries, such as those outlined in Section 1 of this report.

Advocates of the investment of charitable funds in social initiatives have also argued that, whereas the Government has introduced incentives for individual and institutional investors, the lack of comparable incentives for charitable trusts and foundations has made the task of persuading trustees to undertake social investment more difficult.

Some specialist advisers have emerged to assist charities wanting to make social investments, for example, Investing for Good and ClearlySo. UK activists have also been involved in social investment developments in continental Europe and in bringing ideas to the UK from the US experience (e.g. The PRI Makers Network, More For Mission, Rockefeller Philanthropy Advisers and the Rockefeller Foundation's Global Impact Investing Network (GIIN)).

Several UK private banks have introduced philanthropy advisory services during this same period and, influenced by the work of the Task Force, have included information about social investment opportunities in their offer, encouraging wealthy clients to make social investments as part of their philanthropic endeavours.

The Task Force now recommends:

- **Government:**
  introduces an incentive, such as a relief against dividend withholding tax, to encourage trusts and foundations to use some of their considerable assets of more than £60 billion to engage in social investment.

- **Charity Commission:**
  completes its current *Review of CC14* (*Investment of Charitable Funds: Basic Principles*) and encourages trusts and foundations to review their investment strategies; and

  reviews guidance on *Charities and Social Investment* and publishes a revised version which includes practical examples to demonstrate that grant-makers can legitimately engage in social investment.

- **Trusts and Foundations:**
  as represented in the Association of Charitable Foundations (ACF) and the Community Foundation Network (CFN), ensure that guidance to foundations demonstrates that the philanthropic 'toolkit' extends beyond grant-making to include various forms of social investment, emphasising, for example, how philanthropic funds can focus on the 'angel' funding stage of supporting new social enterprises.

- **National Council for Voluntary Organisations:**
  follows-up the work of the Funding Commission by commissioning papers on how social enterprises and charities can use finance to strengthen their balance sheets and fund their own significant development; and how charities with similar purposes could pool resources and make joint investments.

- **Investment and Wealth Managers and Advisers:**
  use existing networks (e.g. GIIN or UKSIF) to share information about social investment opportunities that are currently outside mainstream knowledge, helping to encourage confidence in the social investment market.

5

ORIGINAL RECOMMENDATION FIVE

A STRENGTHENED COMMUNITY DEVELOPMENT FINANCE INDUSTRY

"A thriving community development finance sector comprising Community Development Banks, Community Loan Funds, Micro-loan Funds, and Community Development Venture Funds – standing between government, banks and other investors on the one side, and business and social and community enterprises on the other, is vital to boosting enterprise and wealth creation in under-invested communities."

The Task Force specifically recommended the creation of an effective trade association representing the needs of CDFIs.

The Community Development Finance Association (**cdfa**) was launched at HM Treasury in April 2002 with the Treasury's financial support. The UK Social Investment Forum provided the management resource needed for its initial development.

The **cdfa** has become a well respected trade body, representing to central and regional government the majority of the UK's CDFIs and facilitating their growth. By the March 31, 2009, CDFIs had an aggregated loan book of nearly £400 million, had created and sustained 96,000 jobs and attracted £500 million of private sector funding into UK businesses and households underserved by mainstream financial institutions

As part of its sector-building role, the **cdfa** has developed a mandatory code of practice for its members and performance indicators and benchmarks. These begin to provide the transparency necessary to generate stakeholder confidence in the sector. The **cdfa** runs a professional development programme, and provides briefings, good practice meetings, networking events and an annual conference *Money for Change*.

The Task Force recommends that government:

- provides resources through a range of initiatives including CITR for capacity building among CDFIs; and
- endorses a self regulatory regime for the sector based on **cdfa**'s ***Code of Practice*** and its performance framework, ***Change Matters***.

A VISION FOR THE FUTURE

As the Task Force completes its work, three urgent initiatives should, in its view, be implemented in order to provide the structure for a thriving, scalable and sustainable social sector, capable of significant impact in dealing with social issues. This is particularly relevant for policy makers at a time when an increasing flow of private capital into the social sector would relieve the pressure on government finances.

The governmental initiatives that are described in more detail in this section of the report are:

1. Establishing a properly capitalised Social Investment Bank using unclaimed assets identified in the Dormant Bank and Building Society Accounts Act 2008.
2. Developing the Social Impact Bond to provide funding for early intervention by social sector organisations addressing certain social issues.
3. Committing to a UK Community Reinvestment Act to promote greater engagement by financial institutions with under-invested communities.

3.1 SOCIAL INVESTMENT BANK

Over the last 10 years, the SITF has succeeded in fostering the creation of a UK social investment market. There is now an opportunity to develop a robust and sustainable market and to turn 'social investment' into a mainstream asset class. The Task Force believes that the formation of a properly capitalised Social Investment Bank (SIB) is crucial in achieving this.

Government support is central to the realisation of this opportunity. Appropriate capitalisation of the SIB would enable the mobilisation of significant funds for social investment from a wide variety of sources. These additional funds are likely to represent a multiple of the capital invested in the SIB.

The scale of this opportunity is significant. If just 5% of the £65.6 billion[11] of capital in UK philanthropic foundations, and, over time, 0.5% of institutionally managed assets in the UK, were devoted to social investment, this would unlock over £5.5 billion[12] of financing for social projects. This sum would supplement the £4.4 billion[13] of grant funding that is currently made each year. If 5% of the £86.1 billion[14] estimated to be invested in ISAs (Individual Savings Accounts) were also directed to social investment, this would generate a flow of an additional £4.3 billion. Taken together, these four sources – philanthropic foundations, institutionally managed assets, grant funding and individual savings accounts – could generate £14.2 billion for social investment.

Progress in other markets suggests that these figures are achievable. In the US, aside from significant interest in Programme Related Investment on the part of foundations, a wide range of institutional investors is becoming active in social impact investment. TIAA-CREF, for example, with total assets under management of $400 billion, has devoted more than $600 million to social investment in the US across a range of asset classes, including debt and private equity. Some, like the social investment arm of Prudential of the US, have accepted the principle of sub-market financial

11 2006–07 investment assets held by charities – NCVO Civil Society Almanac (2009)

12 Sum of 5% of philanthropic endowments and 0.5% of institutionally managed assets in the UK – £439bn (August 2009) Investment Management Associationhttp://www.investmentuk.org/statistics/fund_statistics/default.asp (accessed on 29 September 2009)

13 2006–07 total grants – NCVO Civil Society Almanac (2009)

14 ISA funds at August 2009, Investment Management Association: http://www.investmentuk.org/statistics/fund_statistics/default.asp (accessed on 29 September 2009)

returns on investments with a high social return. Calvert Community Investment Notes have succeeded in raising $350 million from retail investors for social investment over the past twelve years at yields of 0–3% pa.

A vibrant social investment market depends on the active participation of a wide variety of investors. This, in turn, depends on investor access to a range of well-structured investments with a good track record of delivery, supported by an active infrastructure of intermediaries who research, evaluate and manage these investments. As the market becomes more confident in the availability of different forms of capital, so it will be possible to structure financial solutions that more closely meet the specific requirements of differing social-purpose organisations. The SIB will play a crucial role in building the necessary market infrastructure. In so doing, it should build on existing organisations wherever possible, but it must also aim to boost the overall capacity of the market to generate investment opportunities. The social return resulting from building market infrastructure will exceed by a considerable margin the social return that the SIB would achieve by deploying its resources directly in social investment.

Four observations underpin our view that the market is ready for the SIB:

- there is demand from organisations with social purpose for long-term capital to fund the growth of their operations;
- there is scope to structure innovative propositions for investors;
- there is demand from investors for a range of investments blending social and financial returns; and
- there is a need for intermediation skills in raising and deploying capital.

The SIB is crucial to improving the position of challenged communities in the UK. With this transformative vision in mind, the SITF strongly supports the recommendations of the *Commission on Unclaimed Assets* that the SIB should have initial capital of £250 million and income of £20 million per year for a minimum of four years thereafter.

The announcement made in the Pre-Budget Report (PBR) on December 9, 2009 is an important step forward: up to £75 million of the proceeds of the Dormant Bank and Building Society Accounts Act 2008 can provide the initial capitalisation for the SIB. So is the PBR recognition that the SIB should be independent of government. However, since £75 million is insufficient to capitalise a powerful, sustainable organisation, it is important to clarify the sources of future capital. Three possibilities should be considered:

- **The SIB should be allocated an additional portion of the unclaimed assets** – the SITF is unconvinced that the priority uses set-out in the PBR for unclaimed assets – youth centre capital costs and financial capability – represent social impact correctly. Given the nature of unclaimed asset cash flows (a lump sum followed by a smaller annual revenue stream), properly capitalising a sustainable SIB now and funding youth centres and financial capability in the future, would appear to be a better use of funds to achieve sustained, significant social impact.
- **The SIB could seek to leverage-in significant matching capital from non-government sources** – this would require tax incentives such as CITR.
- **The SIB could derive revenue from supporting government social investment initiatives, so that they become effective and maximise value for money.**

With clarity on its future sources of capital, the initial endowment of £75 million could enable the SIB to start operating immediately.

3.2
SOCIAL IMPACT BONDS

For many government departments, budgets are spent predominantly on palliative rather than preventative action. For example, the UK Government spends £650 million on truancy p.a. and £800 million[15] p.a. on school exclusions while only £111 million[16]p.a. is spent on preventative initiatives. Of £92 billion health expenditure in England, only 3.7% is spent on preventative interventions.[17] As a consequence, the root causes of social problems are seldom addressed. If more money were allocated to preventative action, there could be a significant reduction in the demand for expensive acute services in the future. However, the Government has hitherto been unable to fund preventative services as well as acute services, and consequently funds only the latter.

The Social Impact Bond (SiB) has been developed to address these issues by enabling significant private investment in preventative interventions through social sector organisations. Its development has been pioneered by Social Finance with the assistance of a range of voluntary, public and private sector organisations.

How the Social Impact Bond Works

The SiB focuses on specific deep-rooted social problems that are a significant cost to the taxpayer (for example: re-offending by short-sentence offenders; acute hospital admissions for elderly patients; at-risk children placed into local authority care).

The SiB involves a multi-year contract according to which government agrees to pay a proportion of the saving resulting from a positive social outcome of private investment through social sector organisations (for example if there is a drop in the re-offending rate). On

15 Cost of truancy £650m per year and cost of school exclusions £800m per year. *Misspent Youth* (New Philanthropy Capital, June 2007).

16 Annual average based on DFES spending of £885m between 1997 2004. Improving school attendance in England (National Audit Office, February 2005).

17 *Prevention & Preventative Spending* (Health England, 2009).

Figure 3: Social Impact Bond: schematic diagram

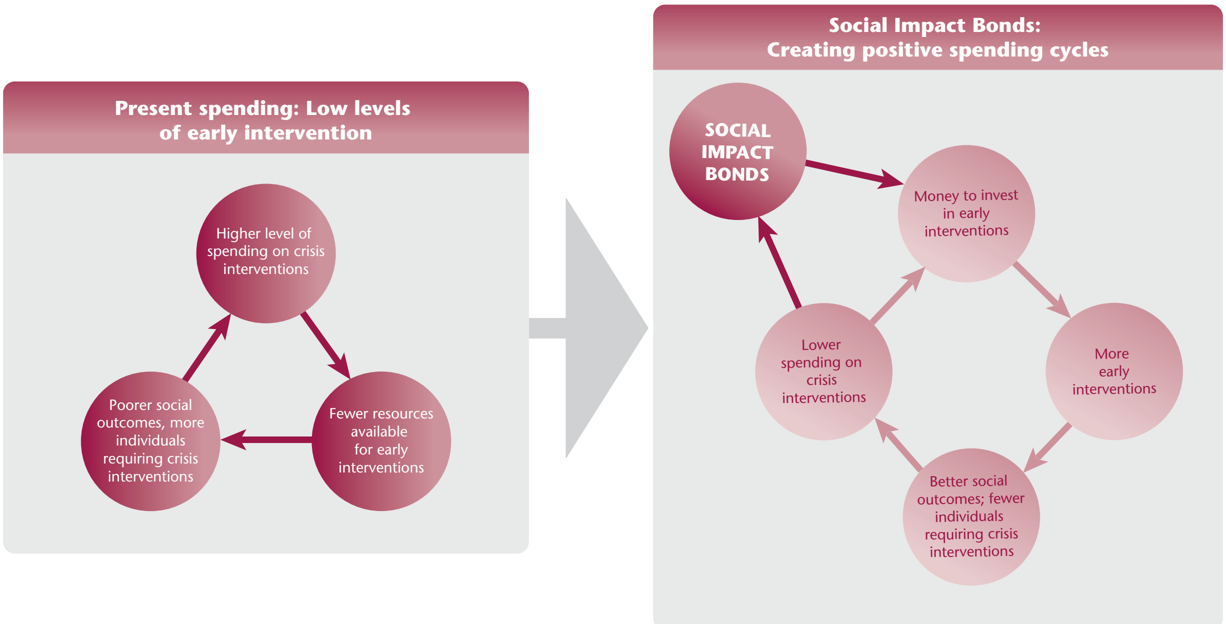
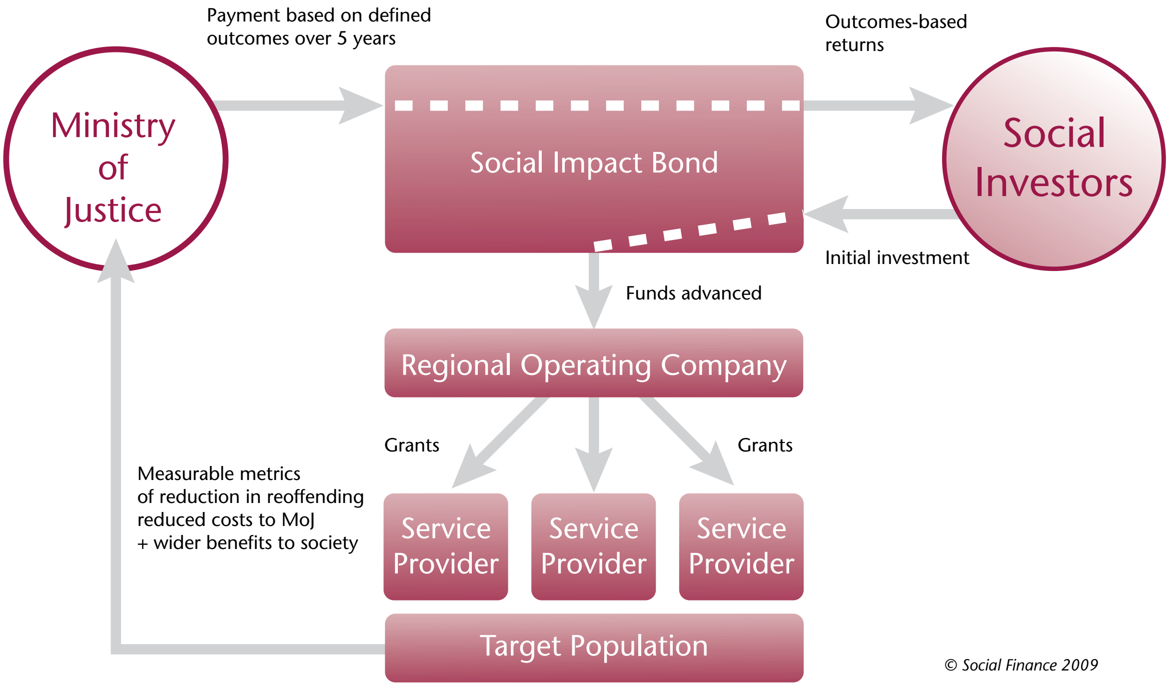


Figure 4: Social Impact Bond: mechanism



the strength of this contract, funds are raised from a range of social investors. This capital is used to assemble a portfolio of preventative programmes run by social organisations. If the programmes are successful and deliver positive social outcomes, the demand for acute services will drop and a proportion of the cost savings made will be paid out to SiB investors.

What does the Social Impact Bond Offer?

This new financing instrument:

- **enables preventative work to be funded at scale** – The SiB provides longer term private investment to fund early intervention that addresses the root causes of social issues. This enables preventative work to be provided in parallel with government's provision of acute services;
- **fosters innovation** – The investment return is based on successful social outcomes of social, not-for-profit service provision. This offers an incentive to innovate in the search for the best solutions to particular social needs; and
- **enables locally-based solutions** – The SiB funds service provision through a portfolio of social sector organisations. This enables local community groups to compete for a more stable revenue stream, with the more effective groups attracting more capital.

Long term vision for Social Impact Bonds

By providing an aligned social and financial return, there is potential for the SiB to unlock an unprecedented flow of social investment for preventative intervention. Investment fund managers believe there would be considerable consumer interest in investing in SiBs once a track record has been established. Ultimately, SiBs could become a new social asset class in their own right, comparable to microfinance, enabling a flow of investment from the capital markets to resolve social issues across the world.

3.3 UK COMMUNITY REINVESTMENT ACT

As the Task Force noted in its prior reports, an important model for combining disclosure and incentives for social investment by the private sector already exists in the US in the shape of the 1977 Community Reinvestment Act (CRA). This Act combines disclosure requirements with social performance ratings and incentivises private sector investment in under-invested communities.

The CRA has evolved over time into a powerful tool for making banks and other depository institutions accountable for their role in addressing financial exclusion.

The CRA emerged in the US out of a national campaign against discrimination in the delivery of financial services. It then evolved to address the causes and effects of the Savings and Loan crisis of the late 1980s that included the bankruptcy of over 1,500 deposit-taking institutions. As a result, CRA multi-year agreements between banks and local community groups involving investment in local initiatives shot-up from $3 billion in 1993 to $43 billion in 1998. In the mid-1990s, small business lending in areas targeted by the CRA averaged $33 billion a year, and community development investment averaged an additional $17 billion a year.

Between 1995 and 2003, the US CDFI Fund, a public investment fund administered by the US Treasury, provided over $800 million to all forms of CDFIs including microfinance loan funds, credit unions, development banks and social venture capital funds. The CDFI Fund provides the basis for greater private funding under the CRA. Banks can use it to meet their CRA requirements. The CDFI Fund has succeeded in attracting private sector investment that is twenty-seven times the public investment.

This funding has allowed the US CDFI sector to mature. In 2009, President Obama's stimulus bill included $400 million allocated to community development finance. Rather than a bail-out for struggling institutions, this represented a recognition of the stimulatory impact of community institutions through their support of the economically excluded.

There are three principal lessons that can be derived from the US experience:

1. Transparency

The requirements for disclosure form the essential basis of the CRA. As discussed earlier in this review, voluntary approaches in the UK have failed. Disclosure is needed in order to identify areas of under-investment, the degree of financial exclusion and the desired targeting of economic activity within those communities.

2. Social Fairness

The evidence from the sub-prime crisis suggests that appropriate finance, provided under the CRA, has protected the interests of people in deprived communities. Problems have arisen primarily in the unregulated segments of the financial markets that have provided loan finance to these communities.

In the UK context, social fairness would also be promoted by developing a UK-specific framework for assessing the contribution of banks to the communities in which they operate, taking into account social factors such as local presence and take-up of basic bank accounts.

3. Partnership

Partnership between government, financial institutions and the communities of which they are part should be at the core of a UK reinvestment framework. The CITR initiative and other public support measures such as the Enterprise Finance Guarantee Scheme, worth £1 billion to SMEs in 2009, are important drivers of social investment. Their inclusion in a reinvestment act as qualifying activities that contribute to social performance ratings would provide a clear incentive to engagement in social investment by banks.

CONCLUSION

The Social Investment Task Force was established at the request of HM Treasury in April 2000 to carry out an urgent but considered assessment of the ways in which the UK could achieve a radical improvement in its capacity to create wealth, economic growth, employment and an improved social fabric in its poorest communities.

The first report of the Task Force ***Enterprising Communities: Wealth Beyond Welfare*** was published in October 2000 and was followed by two progress reports published in 2003 and 2005.

The Task Force has continued to meet periodically to monitor progress and consider ideas to take the social investment agenda forward.

After ten years, this final report of the Task Force has reviewed what has been achieved and suggested key areas for policy development and for action by the social sector.

We hope that government will set a high priority on quickly implementing this report's suggested initiatives. They will support the development of a powerful social sector capable of playing a significant role alongside government in improving the lives of the less fortunate in our society.

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Abstract Social return on investment (SROI) is a concept to account for social value when evaluating investments. It goes beyond traditional economic evaluation tools, by considering value produced for multiple stakeholders in all three dimensions of development: economic, social and environmental.Â In the years preceding the adoption of the Health 2020 policy framework at the 62nd session of the WHO Regional Committee for Europe in Malta in 2012, the 53 Member States of the WHO European Region underwent an unprecedented Region-wide participatory stakeholder consultation (2), which led to the definition of the core shared values. The result has been an increasing demand for integrating Environmental, Social, and Governance (ESG) criteria into investment decisions. In the beginning of 2018, $11.6 trillion of all professionally managed assetsâ€"one $1 of every $4 invested in the United Statesâ€"were under ESG investment strategies, a sharp increase from 2010, when the amount was close to just $3 trillion overall. Inevitably, the financial services sector has responded with a host of innovative financial instruments, some like those mentioned above, others quite different.Â BlackRock recently predicted that the investment in ESG funds will rise to more than $400 billion over the next ten years. A good example is the NAACP Minority Empowerment ETF, or NACP.